



DEVELOPMENT CENTRE

**FIGHTING CORRUPTION IN DEVELOPING COUNTRIES AND EMERGING ECONOMIES: THE ROLE OF THE PRIVATE SECTOR**

**SUMMARY**

*An International Conference organised by the OECD Development Centre in co-operation with the United States Agency for International Development (USAID), the Center for International Private Enterprise (CIPE), PricewaterhouseCoopers LLP and the MacArthur Foundation  
Washington, D.C., 22-23 February 1999*

Contact: Irène Hors, Administrator, DEV/RECH,  
tel: (33-1) 45 24 95 82; fax: (33-1) 45 24 79 43; e-mail: Irène.Hors@oecd.org

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## **Fighting Corruption in Developing Countries and Emerging Economies: The Role of the Private Sector**

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held on 22-23 February 1999 in Washington, D.C.

### **SUMMARY**

#### **I. Introduction**

1. The OECD Development Centre Conference on the role of the private sector in fighting corruption in developing countries and emerging economies was organised in the context of the Development Centre's research programme on "Good Governance and Corruption". Due to the timeliness and topicality of the subject matter, the meeting received strong outside organisational support including substantial contributions from four Sponsors and twelve Partners representing a wide variety of actors such as OECD Member country governments, the private sector, private foundations and NGOs (please see below for the full list).

2. This excellent collaboration was instrumental in attracting more than 250 people from 50 countries to the Conference, including political leaders, representatives of multilateral organisations, representatives of the private sector and members of organisations which fight corruption. Among the very distinguished list of participants figured Ambassador Babbit, Deputy Administrator of USAID; Mr. Bohn, Chairman of the Center for International Private Enterprise; Ambassador Bondurant, U.S. Permanent Representative to the OECD; Mr. Brademas, Chairman of the Board of the National Endowment for Democracy and President Emeritus of New York University; Mr. Daley, U.S. Secretary of Commerce; Mr. Eizenstat, U.S. Under Secretary for Economic, Business and Agriculture Affairs, U.S. Department of State; Mr. Ould-Abdallah, Executive Secretary of the Global Coalition for Africa and former Minister of Foreign Affairs of Mauritania; Mr. Pieth, Chair of the OECD Working Group on Bribery in International Business Transactions; and Mr. Vogl, a founder and Vice President of Transparency International. Mr. Johnston, Secretary-General of the OECD delivered the closing remarks of the conference highlighting the success of the meeting in developing the groundwork for anti-corruption partnerships between governments and the private sector.

#### ***Background: Why should the private sector be involved in the fight against corruption?***

3. Over the past several years a consensus has developed on the four main steps of anti-corruption strategies in developing countries and emerging economies: (i) strengthening control and sanctions; (ii) prevention; (iii) rationalisation of state intervention in the economy; and (iv) increasing the awareness of corruption issues among both public officials and citizens. The success of anti-corruption strategies is highly dependent on a government's commitment to its full implementation, often difficult given the political, economic and social conditions in developing countries. In addition, the mobilisation of civil society and the media is considered an effective way of supporting and monitoring the state's commitment to fighting corruption.

4. However, there are several reasons why it is important to also encourage greater involvement of the private sector in anti-corruption strategies:

- The private sector is one of the main actors of public corruption.
- The private sector, as a whole, has an interest in having an environment where effective state institutions regulate competition.
- Current trends in international standards of corporate governance emphasise corporate transparency and social responsibility.
- The private sector can organise itself in such a way to defend its interests and it has political influence that NGOs do not always have.
- The adoption of ethical practices by the private sector reduces the cost of fighting corruption by limiting the need for control and sanctions. For example, in Hong Kong 75 per cent of the annual expenditure (608 million HK\$ in 1997-1998) for fighting corruption is devoted to control and sanctions.
- Finally, several studies have shown that institutionalised collaboration between government and the private sector has a positive effect on industrial development and integrity in the civil service.

### ***Objective of the Conference and organisation of the sessions***

5. Building on these observations, the main objective the Conference was to show that, based on concrete experiences of multinationals and local enterprises, the private sector can and should participate in fighting corruption in developing countries and emerging economies. In reaching this objective, it was hoped that two additional goals would be met: to make aid agencies more aware of the need to include the private sector in anti-corruption efforts and to encourage the mobilisation of the private sector, notably by providing information on the available support to be found in international and local business associations, NGOs, and aid agencies.

6. The first day of the Conference was divided into four working sessions devoted respectively to the private sector's role in the fight against corruption, progress in developing laws and international codes, pioneer initiatives of multinationals, and public/private partnerships and private sector associations. On the second day workshops were organised to examine the experience of the private sector in developing countries and emerging economies of particular regions: Africa; Asia and the Middle East; Central and East Europe, Russia and the CIS; Latin America and the Caribbean. The final session explored the possibilities of obtaining support for private sector initiatives.

## **II. Main conclusions resulting from the Conference**

7. The situations of multinational subsidiaries and local enterprises were addressed separately as their possibilities for action and constraints are different. For example, multinationals are able to leave a country if they cannot have their own ethical standards respected; they are accountable to the laws of their home country; and they generally do not participate in local politics. However, as both types of enterprise face similar obstacles in their initiatives, both groups were able to benefit from an exchange of experience.

***Multinational Enterprises: specific constraints and initiatives***

8. Discussions revealed that in recent years, a series of initiatives has led to the development of a set of international ethics [for example, recommendations by the International Chamber of Commerce (ICC); the OECD Convention on Bribery in International Business Transactions as well as other OECD work; and activities of the WTO working group on public procurement procedures]. However, a survey by a private consulting agency, the Control Risks Group, showed that multinationals in most instances either adapt to corrupt practices or withdraw their investments, but are doubtful about being able to play an active role in fighting corruption. They often think that only the most powerful and competitive enterprises are able to impose their ethical standards in countries where corruption exists.

9. However, the fact that groups representing the private sector are active in the fight against corruption, such as the ICC and the Union of Industrial and Employers' Confederations of Europe (UNICE), can serve to lessen this scepticism. Moreover, during the discussions four areas for action were proposed to assist multinationals in reconciling efficiency with ethics:

- ***To strengthen the use of the OECD Convention on Bribery in International Business Transactions.*** This is an instrument both *constraining* the multinationals by outlawing bribes in international transactions and *permitting* them to refuse to offer bribes. The participants observed that for the Convention to work well, it would be necessary to increase international co-operation between legal systems, to regulate offshore financial centres and to secure the accord of emerging economies which have not signed the Convention. Ensuring the effective application of the Convention implies major financial support by the countries which are signatories, as well as participation by multinationals, unions and enterprises of developing countries.
- ***To resolve the problem of extortion.*** The private sector is calling for procedures to be adopted to differentiate between extortionary situations and instances of corruption (when the corrupt intent is shared by the two parties). Several representatives hoped that international assistance could be provided to enterprises faced with extortionary situations and which are not in a position of strength vis-à-vis the local government.
- ***To address the issue of middle men.*** An enterprise can involuntarily be an accessory to corrupt acts *via* a middleman recruited to enter a new market. These services could be codified to differentiate between acceptable costs and the sums linked to corruption.
- ***To better disseminate information.*** Enterprises should be better informed about the negative effects of corruption on their ventures, such as financial costs, risk of scandal, costs of internal management, difficulties for the enterprise to resort to the legal system for protecting its rights, on the one hand, and about the positive effects of respecting business ethics on the other.

10. Several multinational companies presented their experiences which made it possible to discuss the practical aspects of adopting an ethical policy by the enterprise itself (self-regulation): (i) drawing up a code of ethics with the participation of the personnel; (ii) disseminating the new policy and rules for personnel within and outside the enterprise; (iii) training of personnel (with special attention to "country managers"); (iv) creating a "hot line" or advisory group in the enterprise"; (v) adopting a procedure for evaluation of the code of ethics and for assuring its implementation. Merck, a multinational in the pharmaceutical industry, has also established several "Centres for Ethics" in collaboration with

governments in Colombia and in the United Arab Emirates and will do so shortly in South Africa. This initiative goes beyond a strict respect for the law and helps in disseminating ethical standards locally.

### *Local Enterprises: specific constraints and initiatives*

11. Two questions dealing with local enterprises were addressed: (i) under what conditions, concerning the nature and organisation of the private sector as well as the institutional and political environment, can local enterprises participate in the fight against corruption? and (ii) what steps can they take?

12. Participants agreed that local enterprises face several difficulties. First, they have a problem of co-ordination: on the one hand, it is difficult to avoid participating in corruption when the competitors continue to engage in it. On the other hand, mobilising against corruption has a cost (time spent by the managers, risks of reprisal). Thus entrepreneurs tend to remain passive while profiting from reforms supported by others. Second, the balance of power between the government and entrepreneurs is unfavourable to the latter. The private sector in developing countries is poorly organised or divided. Moreover, the state's economic power is often greater than that of the private sector and the activity of enterprises largely depends on public contracts. Finally, the emerging democracies are based on patronage systems: enterprises often must contribute to the financing of political parties to preserve a market they have created or to gain access to a market offered by politicians.

13. The experiences reported led to the following lessons concerning the conditions in which local enterprises can oppose corruption:

- First, it is easier for the private sector to operate under democratic systems, where there is a functioning legal system and where at least part of the government is committed to fighting corruption.
- Second, corruption issues are closely linked to the financing of democracy and the development of the public sector, which in particular implies good training for civil servants, an appropriate wage level for the civil service and improving the collection of taxes.
- Third, well-functioning associations of independent entrepreneurs (national or transnational networks of entrepreneurs, etc.) are crucial for fighting corruption. They end the isolation of entrepreneurs, encourage them to express their views and permit the resolution of problems of co-ordination. However, to prevent the risk of anti-competitive arrangements and collusion, it is necessary for these associations to be committed to market mechanisms and be independent of the government.

14. The exchange of views among participants highlighted five main areas for action for the local private sector in developing countries and emerging economies:

**Building political will:** any sustainable action against corruption has to be based on the development of a political coalition standing for integrity, for which the private sector can be an important mainstay. In Morocco, for example, the *Confédération Générale des Entreprises Marocaines* is a strong supporter for the new government's anti-corruption reforms.

**Participation in reforms:** the private sector can enter into a dialogue with public officials on the reforms to be implemented (as illustrated by the experiences of several countries including

Ecuador, Malaysia, Morocco and Ghana) particularly in the following areas: the legal system, public purchases, customs administration, the police, regulations and procedures applicable to the private sector.

**Support for state anti-corruption initiatives:** for example, by financial support. The local private sector financed a part of the activities of the Hong Kong Ethics Development Centre, which is affiliated with the Independent Commission on Corruption.

**Adoption of Integrity Pacts:** for example for major public tender offers. In Argentina, these pacts have been adopted on two separate occasions, by the municipality in Buenos Aires and the province of Mendoza.

**Co-operation with NGOs and the media:** the private sector could contribute to the often limited resources of NGOs fighting corruption as well as the media, thereby strengthening their ability to control and monitor state performance.

### III. Recommendations and Follow-up

15. The Conference concluded with several recommendations for steps to be taken by aid agencies and non-profit organisations:

- Try to involve the private sector in anti-corruption strategies.
- Advocate the formation of associations of independent entrepreneurs.
- Encourage the private sector in developed and developing countries to participate in controlling the effectiveness of the OECD Convention on Bribery in International Business Transactions.
- Help new generations of entrepreneurs to become aware of the costs of corruption and of what they can do.

16. The main conclusions of the Conference will be published in a summary which will present the initial experiences of the private sector, noting the successes and failures in the fight against corruption. In addition, a Policy Brief will be prepared on the fight against corruption in developing countries and emerging economies which will incorporate the conclusions of the Conference.

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